STATE OF NEW JERSEY

BOARD OF PUBLIC UTILITIES

In the Matter of the Board's Review of Unbundled Network Elements Rates, Terms and Conditions of Bell Atlantic New Jersey, Inc.	)	Docket No. TO00060356

DIRECT TESTIMONY

OF

SUSAN M. BALDWIN

ON BEHALF OF THE

DIVISION OF THE RATEPAYER ADVOCATE

Attachment A

Statement of Qualifications of Susan M. Baldwin

SUSAN M. BALDWIN
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Susan M. Baldwin has been actively involved in public policy for twenty-five years, twenty of which have been in telecommunications policy and regulation. Ms. Baldwin is presently an independent consultant. Ms. Baldwin received her Master of Economics from Boston University, her Master of Public Policy from Harvard University's John F. Kennedy School of Government, and her Bachelor of Arts degree in Mathematics and English from Wellesley College.

Ms. Baldwin has extensive experience both in government and in the private sector. Since 2000, Ms. Baldwin has been advising and testifying on behalf of public sector agencies as an independent consultant. In that capacity, she provided comprehensive technical assistance to the Massachusetts Department of Telecommunications and Energy (DTE), serving as a direct advisor in a comprehensive investigation of recurring and nonrecurring costs for unbundled network elements (UNEs). She sponsored testimony in a numbering resource and virtual "NXX" proceeding on behalf of the Iowa Office of Consumer Advocate, on UNE cost studies on behalf of the Illinois Citizens Utility Board, on Qwest's petition to reclassify certain services as competitive on behalf of the Attorney General of the State of Washington, and on CenturyTel's request to raise rates on behalf of the Arkansas Attorney General's Office. She also provided advisory services to the United States General Accounting Office in its preparation of a report on the Internet backbone market.

Ms. Baldwin has testified before the Arkansas Public Service Commission, California Public Utilities Commission, Colorado Public Utilities Commission, Connecticut Department of Public Utility Control, Idaho Public Utilities Commission, Illinois Commerce Commission, Indiana Utility Regulatory Commission, Iowa Utilities Board, Massachusetts Department of Telecommunications and Energy, Nevada Public Service Commission, New Jersey Board of Regulatory Commissioners, Public Utilities Commission of Ohio, Rhode Island Public Utilities Commission, Tennessee Public Service Commission, Vermont Public Service Board, and Washington Utilities and Transportation Commission.

She has also participated in projects in Delaware, the District of Columbia, Hawaii, Illinois, New York, Pennsylvania, and Canada on behalf of consumer advocates, public utility commissions, and competitive local exchange carriers. Ms. Baldwin has served in a direct advisory capacity to public utility commissions in the District of Columbia, Massachusetts, New Mexico, Utah and Vermont.

Ms. Baldwin worked with Economics and Technology, Inc. for twelve years, most recently as a Senior Vice President. Among her numerous projects were the responsibility of advising the Vermont Public Service Board in matters relating to a comprehensive investigation of NYNEX's revenue requirement and proposed alternative regulation plan. She participated in

all phases of the docket, encompassing review of testimony, issuance of discovery, cross-examination of witnesses, drafting memoranda and decisions, and reviewing compliance filings. Another year-long project managed by Ms. Baldwin was the in-depth analysis and evaluation of the cost proxy models submitted in the FCC's universal service proceeding. Also, on behalf of the staff of the Idaho Public Utilities Commission, Ms. Baldwin testified on the proper allocation of US West's costs between regulated and non-regulated services. On behalf of AT&T Communications of California, Inc. and MCI Telecommunications Corporation, Ms. Baldwin comprehensively analyzed the non-recurring cost studies submitted by California's incumbent local exchange carriers.

Ms. Baldwin served as a direct advisor to the Massachusetts Department of Telecommunications and Energy (DTE) between August 2001 and July 2003, in Massachusetts DTE Docket 01-20, an investigation of Verizon's total element long run incremental cost (TELRIC) studies for recurring and nonrecurring unbundled network elements (UNEs). She assisted with all aspects of this comprehensive case in Massachusetts. Ms. Baldwin analyzed recurring and nonrecurring costs studies; ran cost models; reviewed parties' testimony, cross-examined witnesses, trained staff, met with the members of the Commission, assisted with substantial portions of the major orders issued by the DTE; and also assisted with the compliance phase of the proceeding.

Ms. Baldwin has participated in numerous investigations of the impact of proposed mergers of telecommunications carriers on consumers. Ms. Baldwin sponsored testimony on behalf of the Nevada Bureau of Consumer Protection on the proposed merger of Sprint and WorldCom; sponsored testimony on behalf of the Office of Ratepayer Advocates (ORA) of the California Public Utilities Commission and also on behalf of the Washington Office of Attorney General in their respective investigations of the proposed merger of Bell Atlantic Corporation and GTE Corporation; co-managed assistance to the Hawaii Division of Consumer Advocacy in the analysis of the proposed BA/GTE merger; sponsored testimony on behalf of the Ohio Consumers' Counsel and the Indiana Office of Utility Consumer Counselor on the SBC/Ameritech merger; co-sponsored testimony on behalf of the Connecticut Office of Consumer Counsel on the impact of SBC's acquisition of SNET on consumers; co-authored affidavits submitted to the FCC on behalf of consumer coalitions on the SBC/Ameritech and BA/GTE mergers; and co-managed a project to assist the ORA analyze the California Public Utilities Commission's investigation of the merger of Pacific Telesis Group and SBC Communications.

Ms. Baldwin has contributed to the development of state and federal policy on numbering matters. On behalf of the Ad Hoc Telecommunications Users Committee, Ms. Baldwin participated in the Numbering Resource Optimization Working Group (NRO-WG), and in that capacity, served as a co-chair of the Analysis Task Force of the NRO-WG. She has also provided technical assistance to consumer advocates in the District of Columbia, Illinois, Iowa, Massachusetts, and Pennsylvania on area code relief and numbering optimization measures. Ms. Baldwin also co-authored comments on behalf of the National Association of State Utility Consumer Advocates in the FCC's proceeding on numbering resource optimization.

Ms. Baldwin served four years as the Director of the Telecommunications Division for the Massachusetts Department of Public Utilities (the predecessor to the DTE), where she directed a staff of nine, and acted in a direct advisory capacity to the DPU Commissioners. (The Massachusetts DTE maintains a non-separated staff, which directly interacts with the Commission, rather than taking an advocacy role of its own in proceedings). Ms. Baldwin advised and drafted decisions for the Commission in numerous DPU proceedings including investigations of a comprehensive restructuring of New England Telephone Company's rates, an audit of NET's transactions with its NYNEX affiliates, collocation, ISDN, Caller ID, 900-type services, AT&T's request for a change in regulatory treatment, pay telephone and alternative operator services, increased accessibility to the network by disabled persons, conduit rates charged by NET to cable companies, and quality of service. Under her supervision, staff analyzed all telecommunications matters relating to the regulation of the then $1.7-billion telecommunications industry in Massachusetts, including the review of all telecommunications tariff filings; petitions; cost, revenue, and quality of service data; and certification applications. As a member of the Telecommunications Staff Committees of the New England Conference of Public Utility Commissioners (NECPUC) and the National Association of Regulatory Utility Commissioners (NARUC), she contributed to the development of telecommunications policy on state, regional, and national levels.

Ms. Baldwin has worked with local, state, and federal officials on energy, environmental, budget, welfare, and telecommunications issues. As a policy analyst for the New England Regional Commission (NERCOM), Massachusetts Department of Public Welfare (DPW), and Massachusetts Office of Energy Resources (MOER), she acquired extensive experience working with governors' offices, state legislatures, congressional offices, and industry and advocacy groups. As an energy analyst for NERCOM, Ms. Baldwin coordinated New England's first regional seminar on low-level radioactive waste, analyzed federal and state energy policies, and wrote several reports on regional energy issues. As a budget analyst for the DPW, she forecast expenditures, developed low-income policy, negotiated contracts, prepared and defended budget requests, and monitored expenditures of over $100 million. While working with the MOER, Ms. Baldwin conducted a statewide survey of the solar industry and analyzed federal solar legislation.

Ms. Baldwin received Boston University's Dean's Fellowship. While attending the Kennedy School of Government, Ms. Baldwin served as a teaching assistant for a graduate course in microeconomics and as a research assistant for the school's Energy and Environmental Policy Center, and at Wellesley College was a Rhodes Scholar nominee. She has also studied in Ghent, Belgium.

Record of Prior Testimony

In the matter of the Application of the New Jersey Bell Telephone Company for Approval of its Plan for an Alternative Form of Regulation, New Jersey Board of Regulatory Commissioners Docket No. T092030358, on behalf of the New Jersey Cable Television Association, filed September 21, 1992, cross-examined October 2, 1992.

DPUC review and management audit of construction programs of Connecticut's telecommunications local exchange carriers, Connecticut Department of Public Utility Control Docket No. 91-10-06, on behalf of the Connecticut Office of the Consumer Counsel, filed October 30, 1992, cross-examined November 4, 1992.

Joint petition of New England Telephone and Telegraph Company and Department of Public Service seeking a second extension of the Vermont Telecommunications Agreement, Vermont Public Service Board 5614, Public Contract Advocate, filed December 15, 1992, cross-examined December 21, 1992.

Application of the Southern New England Telephone Company to amend its rates and rate structure, Connecticut Department of Public Utility Control Docket No. 92-09-19, on behalf of the Connecticut Office of Consumer Counsel, filed March 26, 1993 and May 19, 1993, cross-examined May 25, 1993.

In the matter of the Application of Cincinnati Bell Telephone Company for Approval of an Alternative Form of Regulation and for a Threshold Increase in Rates, Public Utilities Commission of Ohio Case No. 93-432-TP-ALT, on behalf of Time Warner AxS, filed March 2, 1994.

Matters relating to IntraLATA Toll Competition and Access Rate Structure, Rhode Island Public Utilities Commission Docket 1995, on behalf of the Rhode Island Public Utilities Commission Staff, filed March 28, 1994 and June 9, 1994, cross-examined August 1, 1994.

In the Matter of the Application of The Ohio Bell Telephone Company for Approval of an Alternative Form of Regulation, Public Utilities Commission of Ohio Case No. 93-487-TP-ALT, on behalf of Time Warner AxS, filed May 5, 1994, cross-examined August 11, 1994.

In Re: Universal Service Proceeding: The Cost of Universal Service and Current Sources of Universal Service Support, Tennessee Public Service Commission Docket No. 95-02499, on behalf of Time Warner AxS of Tennessee, L.P., filed October 18, 1995 and October 25, 1995, cross-examined October 27, 1995.

In Re: Universal Service Proceeding: Alternative Universal Service Support Mechanisms, Tennessee Public Service Commission Docket No. 95-02499, on behalf of Time Warner AxS of Tennessee, L.P., filed October 30, 1995 and November 3, 1995, cross-examined November 7, 1995.

In the Matter of the Application of US West Communications, Inc. for Authority to Increase its Rates and Charge for Regulated Title 61 Services, Idaho Public Utilities Commission Case No. USW-S-96-5, on behalf of the Staff of the Idaho Public Utilities Commission, filed November 26, 1996 and February 25, 1997, cross-examined March 19, 1997.

A Petition by the Regulatory Operations Staff to Open an Investigation into the Procedures and Methodologies that Should Be Used to Develop Costs for Bundled or Unbundled Telephone Services or Service Elements in the State of Nevada, Nevada Public Service Commission Docket No. 96-9035, on behalf of AT&T Communications of Nevada, Inc., filed May 23, 1997, cross-examined June 6, 1997.

Rulemaking on the Commission's Own Motion to Govern Open Access to Bottleneck Services and Establish a Framework for Network Architecture; Investigation on the Commission's Own Motion into Open Access and Network Architecture Development of Dominant Carrier Networks, California Public Utilities Commission R.93-04-003 and I.93-04-002, co-authored a declaration on behalf of AT&T

Communications of California, Inc., and MCI Telecommunications Corporation, filed on December 15, 1997 and on February 11, 1998.

Consolidated Petitions for Arbitration of Interconnection Agreements, Massachusetts Department of Telecommunications and Energy, DPU 96-73/74. 96-75, 96-80/81, 96-83, and 96-84, on behalf of AT&T Communications of New England, Inc. and MCI Telecommunications Corporation, filed February 3, 1998.

In the Matter of the Application of US West Communications, Inc. for Specific Forms of Price Regulation, Colorado Public Utilities Commission Docket No. 97-A-540T, on behalf of the Colorado Office of Consumer Counsel, filed on April 16, 1998, May 14, 1998 and May 27, 1998, cross-examined June 2, 1998.

Joint Application of SBC Communications and Southern New England Telecommunications Corporation for Approval of a Change of Control, Connecticut Department of Public Utility Control Docket No. 98-02-20, on behalf of the Connecticut Office of Consumer Counsel, filed May 7, 1998 and June 12, 1998, cross-examined June 15-16, 1998.

Fourth Annual Price Cap Filing of Bell Atlantic-Massachusetts, Massachusetts Department of Telecommunications and Energy Docket DTE 98-67, on behalf of MCI Telecommunications Corporation, filed September 11, 1998 and September 25, 1998, cross-examined October 22, 1998.

Applications of Ameritech Corp., Transferor, and SBC Communications, Inc., Transferee, For Consent to Transfer Control, Federal Communications Commission CC Docket No. 98-141, co-sponsored affidavit on behalf of Indiana Utility Consumer Counselor, Michigan Attorney General, Missouri Public Counsel, Ohio Consumers' Counsel, Texas Public Utility Counsel and Utility Reform Network, filed on October 13, 1998.

In the Matter of the Joint Application of SBC Communications Inc., SBC Delaware, Inc., Ameritech Corporation and Ameritech Ohio for Consent and Approval of a Change of Control, Public Utilities Commission of Ohio Case No.98-1082-TP-AMT, on behalf of Ohio Consumers' Counsel, filed on December 10, 1998, cross-examined on January 22, 1999.

GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, For Consent to Transfer Control, Federal Communications Commission CC Docket No. 98-184, co-sponsored an affidavit on behalf of a coalition of consumer advocates from Delaware, Hawaii, Maine, Maryland, Missouri, Ohio, Oregon, West Virginia, and Michigan, filed on December 18, 1998.

In the Matter of the Joint Application of GTE and Bell Atlantic to Transfer Control of GTE's California Utility Subsidiaries to Bell Atlantic, Which Will Occur Indirectly as a Result of GTE's Merger with Bell Atlantic, California Public Utilities Commission A. 98-12-005, on behalf of the California Office of Ratepayer Advocate, filed on June 7, 1999.

In the Matter of the Investigation on the Commission's Own Motion Into All Matters Relating to the Merger of Ameritech Corporation and SBC Communications Inc., Indiana Utility Regulatory Commission Cause No. 41255, on behalf of the Indiana Office of Utility Consumer Counselor, filed on June 22, 1999 and July 12, 1999, cross-examined July 20, 1999.

In re Application of Bell Atlantic Corporation and GTE Corporation for Approval of the GTE Corporation - Bell Atlantic Corporation Merger, Washington Utilities and Transportation Commission UT-981367, on behalf of the Washington Attorney General Public Counsel Section, filed on August 2, 1999.

Application of New York Telephone Company for Alternative Rate Regulation, Connecticut Department of Public Utility Control Docket No. 99-03-06, on behalf of the Connecticut Office of Consumer Counsel, filed October 22, 1999.

In re: Area Code 515 Relief Plan, Iowa Utilities Board Docket No. SPU-99-22, on behalf of the Iowa Office of Consumer Advocate, filed November 8, 1999, and December 3, 1999, cross-examined December 14, 1999.

In re Application of MCI WorldCom, Inc. and Central Telephone Company - Nevada, d/b/a Sprint of Nevada, and other Sprint entities for Approval of Transfer of Control pursuant to NRS 704.329, Nevada Public Utilities Commission Application No. 99-12029, on behalf of the Nevada Office of the Attorney General, Bureau of Consumer Protection, filed April 20, 2000.

In re: Area Code 319 Relief Plan, Iowa Utilities Board Docket No. SPU-99-30, on behalf of the Iowa Office of Consumer Advocate, filed June 26, 2000 and July 24, 2000.

In re: Sprint Communications Company, L.P. & Level 3 Communications, L.L.C., Iowa Utilities Board Docket Nos. SPU-02-11 & SPU-02-13, filed October 14, 2002 and January 6, 2003, cross-examined February 5, 2003.

Illinois Bell Telephone Company filing to increase unbundled loop and nonrecurring rates (tariffs filed December 24, 2002), Illinois Commerce Commission Docket No. 02-0864, on behalf of Citizens Utility Board, filed May 6, 2003.

Qwest Petition for Competitive Classification of Business Services, Washington Utilities and Transportation Commission Docket No. 030614, on behalf of Public Counsel, filed August 13, 2003 and August 29, 2003, cross-examined September 18, 2003.

In the Matter of the Application of CenturyTel of Northwest Arkansas, LLC for Approval of a General Change in Rates and Tariffs, Arkansas Public Service Commission Docket No. 03-041-U, on behalf of the Attorney General, filed October 9, 2003 and November 20, 2003.

Testimony before State Legislatures:

Testified on September 24, 1997, before the Massachusetts State Legislature Joint Committee on Government Regulations regarding House Bill 4937 (concerning area codes).

Publications/Presentations

Articles on telecommunications and energy policy in trade journals, and presentations at industry associations and conferences include the following:

Reports:

"Assessing SBC/Pacific's Progress in Eliminating Barriers to Entry: The Local Market in California Is Not Yet 'Fully and Irreversibly Open'" (with Patricia D. Kravtin, Dr. Lee L. Selwyn, and Douglas S. Williams). Prepared for the California Association of Competitive Telecommunications Companies, July 2000.

"Where Have All the Numbers Gone? (Second Edition): Rescuing the North American Numbering Plan from Mismanagement and Premature Exhaust" (with Dr. Lee L. Selwyn). Prepared for the Ad Hoc Telecommunications Users Committee, June 2000.

"Price Cap Plan for USWC: Establishing Appropriate Price and Service Quality Incentives for Utah" (with Patricia D. Kravtin and Scott C. Lundquist). Prepared for the Utah Division of Public Utilities, March 22, 2000.

"Telephone Numbering: Establishing a Policy for the District of Columbia to Promote Economic Development" (with Douglas S. Williams and Sarah C. Bosley). Prepared for the District of Columbia Office of People's Counsel, February 2000 (submitted to Eric W. Price, Deputy Mayor, April 6, 2000).

"The Use of Cost Proxy Models to Make Implicit Support Explicit, Assessing the BCPM and the Hatfield Model 3.1" (with Dr. Lee L. Selwyn). Prepared for the National Cable Television Association, submitted in FCC CC Docket No. 96-45, March 1997.

"The Use of Forward-Looking Economic Cost Proxy Models" (with Dr. Lee L. Selwyn). Prepared for the National Cable Television Association, submitted in FCC Docket No. CCB/CPB 97-2, February 1997.

"Continuing Evaluation of Cost Proxy Models for Sizing the Universal Service Fund, Analysis of the Similarities and Differences between the Hatfield Model and the BCM2" (with Dr. Lee L. Selwyn). Prepared for the National Cable Television Association, submitted in FCC CC Docket No. 96-45, October 1996.

"Converging on a Cost Proxy Model for Primary Line Basic Residential Service, A Blueprint for Designing a Competitively Neutral Universal Service Fund" (with Dr. Lee L. Selwyn). Prepared for the National Cable Television Association, submitted in FCC CC Docket No. 96-45, August 1996.

"The BCM Debate, A Further Discussion" (with Dr. Lee L. Selwyn and Helen E. Golding). Prepared for the National Cable Television Association, submitted in FCC CC Docket No. 96-45, May 1996.

"The Cost of Universal Service, A Critical Assessment of the Benchmark Cost Model" (with Dr. Lee L. Selwyn). Prepared for the National Cable Television Association, submitted in FCC CC Docket No. 96-45, April 1996.

"Funding Universal Service: Maximizing Penetration and Efficiency in a Competitive Local Service Environment" (with Dr. Lee L. Selwyn). Prepared for Time Warner Communications, Inc., October 1995.

"A Balanced Telecommunications Infrastructure Plan for New York State" (with Dr. Lee L. Selwyn). Prepared for the New York User Parties, December 4, 1992.

"A Roadmap to the Information Age: Defining a Rational Telecommunications Plan for Connecticut" (with Dr. Lee L. Selwyn, Susan M. Gately, JoAnn S. Hanson, David N. Townsend, and Scott C. Lundquist). Prepared for the Connecticut Office of Consumer Counsel, October 30, 1992.

"Analysis of Local Exchange Carrier April 1988 Bypass Data Submissions" (with William P. Montgomery and Dr. Lee L. Selwyn). Prepared for the National Association of State Utility Consumer Advocates, August 1988.

"Strategic Planning for Corporate Telecommunications in the Post-Divestiture Era: A Five Year View" (with Dr. Lee L. Selwyn, William P. Montgomery, and David N. Townsend). Report to the International Communications Association, December 1986.

"Competitive Pricing Analysis of Interstate Private Line Services." Prepared for the National Telecommunications Network, June 1986.

"Analysis of Diamond State Telephone Private Line Pricing Movements: 1980-1990." Prepared for Network Strategies, Inc., April 1985.

"Analysis of New York Telephone Private Line Pricing Movements: 1980-1990." Prepared for Network Strategies, Inc., February 1985.

Presentations:

"Impact of Federal Regulatory Developments on Consumers and Consumers' Impact on Regulatory Developments," Presentation for the Washington Attorney General's Office, Seattle, Washington, May 27, 2003.

"The Finances of Local Competition" Presentation at the New England Conference of Public Utilities Commissioners 54th Annual Symposium, Mystic, Connecticut, May 21, 2001.

"Facilities-Based Competition" Presentation at the New England Conference of Public Utilities Commissioners 52nd Annual Symposium, Bretton Woods, New Hampshire, May 24, 1999.

"Exploring Solutions for Number Exhaust on the State Level" and "A Forum for Clarification and Dialogue on Numbering Ideas," ICM Conference on Number Resource Optimization, December 10-11, 1998.

"Telecommunications Mergers: Impact on Consumers," AARP Legislative Council 1998 Roundtable Meeting, November 18, 1998

"Consumer Perspectives on Incumbent Local Exchange Carrier Mergers," National Association of Regulatory Utility Commissioners 110th Annual Convention, November 11, 1998.

Federal Communications Commission En Banc Hearing on "Proposals to Revised the Methodology for Determining Universal Service Support," CC Docket Nos. 96-45 and 97-160," June 8, 1998, panelist.

"Universal Service: Real World Applications," 1997 National Association of State Utility Consumer Advocates Mid-Year Meeting, June 9, 1997.

"Modeling operating and support expenses" and "Modeling capital expenses," panelist for Federal-State Joint Board on Universal Service Staff Workshops on Proxy Cost Models, January 14-15, 1997, CC Docket 96-45.

"Evaluating the BCM2: An Assessment of Its Strengths and Weaknesses," presentation to the AT&T Cost Team (with Michael J. DeWinter), December 4, 1996.

"Interpreting the Telecommunications Act of 1996 Mandate for the Deployment of Advanced Telecommunications Services in a Fiscally Responsible and Fully Informed Manner" (with Helen E. Golding), *Proceedings of the Tenth NARUC Biennial Regulatory Information Conference*, Volume 3, September 11-13, 1996.

"Making Adjustments to the BCM2." Presentation to the Staff of the Federal-State Joint Board on Universal Service, September 16, 1996.

"Converging on a Model: An Examination of Updated Benchmark Cost Models and their Use in Support of Universal Service Funding." Presentation to the National Association of Regulatory Utility Commissioners Summer Committee Meetings, July 22, 1996.

"The Phone Wars and How to Win Them" (with Helen E. Golding). *Planning*, July 1996 (Volume 62, Number 7).

"ETI's Corrections to and Sensitivity Analyses of the Benchmark Cost Model." Presentation to the Staff of the Federal-State Joint Board on Universal Service," May 30, 1996.

"Redefining Universal Service." Presentation at the *Telecommunications Reports* conference on "Redefining Universal Service for a Future Competitive Environment," January 18, 1996.

"Funding Universal Service: Maximizing Penetration and Efficiency in a Competitive Local Service Environment," (with Lee L. Selwyn, under the direction of Donald Shepheard), a Time Warner Communications Policy White Paper, September 1995.

"Stranded Investment and the New Regulatory Bargain," (with Lee L. Selwyn, under the direction of Donald Shepheard), a Time Warner Communications Policy White Paper, September 1995.

"New Frontiers in Regulation." Presentation to the New England Women Economists Association, December 12, 1995.

"Local Cable and Telco Markets." Presentation at the New England Conference of Public Utilities Commissioners 46th Annual Symposium, June 29, 1993.

"Relationship of Depreciation to State Infrastructure Modernization." Presentation at the *Telecommunications Reports* conference on "Telecommunications Depreciation," May 6, 1993.

"Crafting a Rational Path to the Information Age." Presentation at the State of New Hampshire's conference on the "Twenty-First Century Telecommunications Infrastructure," April 1993.

"The Political Economics of ISDN," presentation at the John F. Kennedy School of Government seminar on "Getting from Here to There: Building an Information Infrastructure in Massachusetts," March 1993.

"ISDN Rate-Setting in Massachusetts." *Business Communications Review*, June 1992 (Volume 22, No. 6).

"The New Competitive Landscape: Collocation in Massachusetts." Presentation at TeleStrategies Conference on Local Exchange Competition, November 1991.

"Telecommunications Policy Developments in Massachusetts." Presentations to the Boston Area Telecommunications Association, October 1989; March 1990; November 1990; June 1992. Presentation to the New England Telecommunications Association, March 1990.

"Tariff Data is Critical to Network Management." *Telecommunications Products and Technology*, May 1988 (Volume 6, No. 5).

"How to Capitalize on the New Tariffs." Presentation at Communications Managers Association conference, 1988.

"Auction Methods for the Strategic Petroleum Reserve" (With Steven Kelman and Richard Innes). Prepared for Harvard University Energy Security Program, July 1983.

"How Two New England Cities Got a $100 Million Waste-to-Energy Project" (with Diane Schwartz). *Planning*, March 1983 (Volume 49, Number 3).

"Evaluation of Economic Development and Energy Program in Lawrence, Massachusetts." (with Richard Innes). Prepared for U.S. Department of Energy, August, 1982.

"Energy Efficiency in New England's Rental Housing." New England Regional Commission, 1981.

"Low Level Radioactive Waste Management in New England." New England Regional Commission, 1981.

"The Realtor's Guide to Residential Energy Efficiency." Prepared for the U.S. Department of Energy and the National Association of Realtors, 1980.

Advisor to:

United States General Accounting Office Report to the Subcommittee on Antitrust, Business Rights and Competition, Committee on the Judiciary, U.S. Senate, *Characteristics and Competitiveness of the Internet Backbone Market*, GAO-02-16, October 2001.

List of Exhibits

RPA Exhibit SMB-1

Depreciation Ranges Adopted In FCC CC Docket No. 98-137
December 17, 1999

DEPRECIATION RANGES ADOPTED IN CC DOCKET NO. 98-137 – DECEMBER 17, 1999

RANGES FOR ACCOUNTS				
DEPRECIATION RATE CATEGORY	**PROJECTION LIFE RANGE (YEARS)**		**FUTURE NET SALVAGE RANGE (PERCENT)**	
	LOW	**HIGH**	**LOW**	**HIGH**
MOTOR VEHICLES	7.5	9.5	10	20
AIRCRAFT	7	10	30	60
SPECIAL PURPOSE VEHICLES	12	18	0	10
GARAGE WORK EQUIPMENT	12	18	0	10
OTHER WORK EQUIPMENT	12	18	0	10
FURNITURE	15	20	0	10
OFFICE SUPPORT EQUIPMENT	10	15	0	10
CO COMMUICATIONS EQUIPMENT	7	10	-5	10
GENERAL PURPOSE COMPUTERS	6	8	0	5
DIGITAL SWITCHING	12	18	0	5
OPERATOR SYSTEMS	8	12	0	5
RADIO SYSTEMS	9	15	-5	5
CIRCUIT EQUIPMENT - DDS	7	11	-5	10
CIRCUIT EQUIPMENT - ANALOG	8	11	-5	0
CIRCUIT EQUIPMENT - DIGITAL	11	13	0	5
STATION APPARATUS	5	8	-5	5
LARGE PBX	5	8	-5	5
PUBLIC TELEPHONE	7	10	0	10
OTHER TERMINAL EQUIPMENT	5	8	-5	5
POLES	25	35	-75	-50
AERIAL CABLE - METALLIC	20	26	-35	-10
AERIAL CABLE – NON METALLIC	25	30	-25	-10
UNDERGROUND CABLE - METALLIC	25	30	-30	-5
UNDERGROUND CABLE – NON METALLIC	25	30	-20	-5
BURIED CABLE - METALLIC	20	26	-10	0
BURIED CABLE – NON METALLIC	25	30	-10	0
SUBMARINE CABLE	25	30	-5	0
INTRABLDG NETWORK CBL - METALLIC	20	25	-30	-5
INTRABLDG NETWORK CBL – NON METALLIC	25	30	-15	0
CONDUIT SYSTEMS	50	60	-10	0

RPA Exhibit SMB-2

Verizon's Proposed UNE Rates Would Lead to Excessive Revenues and Jeopardize Local Competition: Comparison of Present and Proposed Recurring UNE Rates

Exhibit SMB-2

Verizon's Proposed UNE Rates Would Lead to Excessive Revenues and Jeopardize Local Competition

VERIZON - NEW JERSEY
Comparison of Present and Proposed Recurring UNE Rates
DOCKET No. TO00060356

Unbundled Network Elements	Present Rate[1]	Verizon Proposed Rate[2]	Absolute Difference	Percentage Difference[3]
UNBUNDLED LOOP				
2 Wire				
Density Cell 1	$ 8.12	$ 11.91	$ 3.79	47%
Density Cell 2	$ 9.59	$ 14.11	$ 4.52	47%
Density Cell 3	$ 10.92	$ 15.89	$ 4.97	46%
Statewide Average	$ 9.52	$ 13.94	$ 4.42	46%
4 Wire				
Density Cell 1	$ 16.48	$ 24.51	$ 8.03	49%
Density Cell 2	$ 19.91	$ 29.63	$ 9.72	49%
Density Cell 3	$ 22.51	$ 33.18	$ 10.67	47%
Statewide Average	$ 19.59	$ 29.06	$ 9.47	48%
ISDN				
Density Cell 1	$ 11.00	$ 16.53	$ 5.53	50%
Density Cell 2	$ 12.48	$ 18.74	$ 6.26	50%
Density Cell 3	$ 13.81	$ 20.52	$ 6.71	49%
Statewide Average	$ 12.40	$ 18.57	$ 6.17	50%
DS1				
Density Cell 1	$ 68.88	$ 102.08	$ 33.20	48%
Density Cell 2	$ 70.99	$ 105.41	$ 34.42	48%
Density Cell 3	$ 75.89	$ 113.08	$ 37.19	49%
Statewide Average	$ 71.34	$ 105.95	$ 34.61	49%
DS3				
Density Cell 1	$ 754.83	$ 1,055.66	$ 300.83	40%
Density Cell 2	$ 754.83	$ 1,055.66	$ 300.83	40%
Density Cell 3	$ 754.83	$ 1,055.66	$ 300.83	40%
Statewide Average	$ 754.83	$ 1,055.66	$ 300.83	40%
DDS				
Density Cell 1	$ 14.55	$ 21.57	$ 7.02	48%
Density Cell 2	$ 17.97	$ 26.69	$ 8.72	49%
Density Cell 3	$ 20.59	$ 30.25	$ 9.66	47%
Statewide Average	$ 17.66	$ 26.13	$ 8.47	48%
2 Wire Subloop - Distribution				
Density Cell 1	$ 4.61	$ 7.45	$ 2.84	62%
Density Cell 2	$ 5.40	$ 8.78	$ 3.38	63%
Density Cell 3	$ 6.27	$ 10.05	$ 3.78	60%
4 Wire Subloop - Distribution				
Density Cell 1	$ 7.58	$ 12.37	$ 4.79	63%
Density Cell 2	$ 9.09	$ 14.92	$ 5.83	64%
Density Cell 3	$ 10.73	$ 17.36	$ 6.63	62%
Network Interface Device (NID) per Month - 2 Wire	$ 0.54	$ 0.76	$ 0.22	40%
Network Interface Device (NID) per Month - 4 Wire	$ 0.67	$ 0.95	$ 0.28	41%
Network Interface Device (NID) per Month - DS1	$ 4.72	$ 5.91	$ 1.19	25%
DARK FIBER - IOF				
Fixed Serving CO	$ 6.60	$ 9.79	$ 3.19	48%
Per Mile	$ 76.37	$ 127.27	$ 50.90	67%

Exhibit SMB-2

Verizon's Proposed UNE Rates Would Lead to Excessive Revenues and Jeopardize Local Competition

VERIZON - NEW JERSEY
Comparison of Present and Proposed Recurring UNE Rates
DOCKET No. TO00060356

Unbundled Network Elements	Present Rate[1]	Verizon Proposed Rate[2]	Absolute Difference	Percentage Difference[3]
DARK FIBER - LOOP				
Fixed Serving CO	$ 6.60	$ 9.79	$ 3.19	48%
Loop - Density Cell 1	$ 73.95	$ 117.16	$ 43.21	58%
Loop - Density Cell 2	$ 103.28	$ 166.07	$ 62.79	61%
Loop - Density Cell 3	$ 129.87	$ 210.37	$ 80.50	62%
Dark Fiber - IOF to CLEC POP	$ 56.14	$ 87.49	$ 31.35	56%
HOUSE AND RISER				
Cable Investment per floor[4]	$ 0.01	$ 0.01	$ -	0%
Building Access per pair	$ 0.30	$ 0.48	$ 0.18	62%
50 Pair Terminal Charge[4]	$ 157.38	$ 157.38	$ -	0%
Terminal Charge per pair	$ 3.15	not shown in Exh. A	-	-
Unbundled Port- Per MONTH				
POTS/PBX/CTX[5]	$ 1.91	$ 4.08	$ 2.17	113%
ISDN PRI	$ 71.38	$ 109.90	$ 38.52	54%
ISDN Single line BRI or CTX Port	$ 4.43	$ 6.67	$ 2.24	51%
Unbundled Coin Port (UCP)	$ 1.50	$ 1.76	$ 0.26	18%
Unbundled Public Access Line Port (UPALP)	$ 0.73	$ 0.97	$ 0.24	33%
Ancilliary Features				
Inward Direct Dial Blocking (IDDB)[4]	$ 0.03	$ 0.03	$ -	0%
Inward Screening	$ -	$ -	$ -	-
Line Side Answer Supervision	$ -	$ 0.00298	$ 0.002982	-
Call Type Blocking[4]	$ 0.05	$ 0.05	$ -	0%
Limited InterLATA Dialing Service	$ 0.04	$ 0.04	$ (0.00)	0%
DID	$ 2.72	$ 4.18	$ 1.46	54%
SMDI	$ 182.85	$ 281.54	$ 98.69	54%
Switched DS1	$ 55.65	$ 85.71	$ 30.06	54%
IDLC	$ 67.23	$ 103.62	$ 36.39	54%
Dedicated Trunk Port - End Office	$ 48.96	$ 75.40	$ 26.44	54%
Dedicated Trunk Port - Tandem	$ 59.07	$ 91.01	$ 31.94	54%
Switching- Per MOU				
POTS Usage				
Originating without Vertical Services[5]	$ 0.001203	$ 0.001895	$ 0.000692	58%
Terminating without Vertical Services[5]	$ 0.001171	$ 0.001846	$ 0.000675	58%
POTS Features				
PBX	$ 0.005898	$ 0.007400	$ 0.001502	25%
Multi-Line Hunting	$ 0.000001	$ 0.000002	$ 0.000001	121%
Centrex Per MOU				
Intercom & Features	$ 0.010227	$ 0.012832	$ 0.002605	25%
Hunting	$ 0.000237	$ 0.000297	$ 0.000060	25%
UCD	$ 0.000139	$ 0.000174	$ 0.000035	26%
Queuing	$ 0.000582	$ 0.000730	$ 0.000148	25%
Attendant	$ 0.004390	$ 0.005508	$ 0.001118	25%
Attendant Console	$ 0.022142	$ 0.027784	$ 0.005642	25%
Centralized Attendant Services	$ 0.020531	$ 0.025763	$ 0.005232	25%
Attendant Access Code Dialing	$ 0.003645	$ 0.004572	$ 0.000927	25%
ARS Per MOU	$ 0.003684	$ 0.004623	$ 0.000939	25%
ETS Per MOU	$ 0.006059	$ 0.007603	$ 0.001544	25%

Exhibit SMB-2

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VERIZON - NEW JERSEY
Comparison of Present and Proposed Recurring UNE Rates
DOCKET No. TO00060356

Unbundled Network Elements	Present Rate[1]	Verizon Proposed Rate[2]	Absolute Difference	Percentage Difference[3]
ISDN Usage				
Digital- Circuit Switch Voice/Features- Originating	$ 0.002585	$ 0.002947	$ 0.000362	14%
Digital- Circuit Switch Voice/Features- Terminating	$ 0.001714	$ 0.001847	$ 0.000133	8%
Digital- Circuit Switch Data- Originating	$ 0.001779	$ 0.001935	$ 0.000156	9%
Digital- Circuit Switch Data- Terminating	$ 0.001714	$ 0.001847	$ 0.000133	8%
ISDN Features				
Centrex	$ 0.003767	$ 0.004727	$ 0.000960	25%
Transport and Termination - per MOU				
Termination at End Office	$ 0.001885	$ 0.002022	$ 0.000137	7%
Termination at Tandem	$ 0.002863	$ 0.003349	$ 0.000486	17%
Tandem Transit Switch				
Tandem Switching MOU	$ 0.000674	$ 0.000879	$ 0.000205	30%
Common Transport - per MOU				
Tandem Switching MOU	$ 0.000674	$ 0.000879	$ 0.000205	30%
Fixed- Common	$ 0.000085	$ 0.000160	$ 0.000075	89%
Per Mile	$ 0.0000006	$ 0.000001	$ 0.0000004	69%
Dedicated Transport - per Month				
Entrance Facilities				
DS-1 Channel Termination	$ 71.34	$ 105.95	$ 34.61	49%
DS-3 Channel Termination	$ 754.83	$ 1,055.66	$ 300.83	40%
Voice Grade Chan Term 2W	$ 9.52	$ 13.94	$ 4.42	46%
Voice Grade Chan Term 4W	$ 19.59	$ 29.06	$ 9.47	48%
STS-1 - Customer Access Ring	$ 1,005.51	$ 1,421.92	$ 416.41	41%
STS-1 - High Speed Access Ring	$ 576.50	$ 838.21	$ 261.71	45%
OC-3 - Customer Access Ring	$ 1,334.50	$ 1,837.35	$ 502.85	38%
OC-3 - High Speed Access Ring	$ 750.40	$ 1,057.04	$ 306.64	41%
OC-12 - Customer Access Ring	$ 2,254.65	$ 3,204.27	$ 949.62	42%
OC-12 - High Speed Access Ring	$ 2,254.65	$ 3,204.27	$ 949.62	42%
DS-3 to DS-1 Multiplexing	$ 364.60	$ 540.39	$ 175.79	48%
DS-1 to voice Grade Multiplexing	$ 241.16	$ 360.41	$ 119.25	49%
IOF				
DS-3 Fixed includes both ends	$ 372.30	$ 555.45	$ 183.15	49%
DS-3 per Mile	$ 7.48	$ 11.54	$ 4.06	54%
DS-1 Fixed includes both ends	$ 27.62	$ 41.06	$ 13.44	49%
DS-1 per Mile	$ 0.47	$ 0.71	$ 0.24	51%
Voice Grade Fixed includes both ends	$ 23.26	$ 34.48	$ 11.22	48%
Voice Grade per Mile	$ 0.02	$ 0.03	$ 0.01	48%
DDS - Fixed includes both ends	$ 23.26	$ 34.48	$ 11.22	48%
DDS - per Mile	$ 0.02	$ 0.03	$ 0.01	48%
OC-3 - Fixed includes both ends	$ 1,129.95	$ 1,686.28	$ 556.33	49%
OC-3 - per mile	$ 22.92	$ 35.32	$ 12.40	54%
OC-12 - Fixed includes both ends	$ 2,840.84	$ 4,244.16	$ 1,403.32	49%
OC-12 - per mile	$ 54.09	$ 85.49	$ 31.40	58%
STS-1 - Fixed includes both ends	$ 372.42	$ 555.63	$ 183.21	49%
STS-1 - per mile	$ 7.49	$ 11.55	$ 4.06	54%

Exhibit SMB-2

Verizon's Proposed UNE Rates Would Lead to Excessive Revenues and Jeopardize Local Competition

VERIZON - NEW JERSEY
Comparison of Present and Proposed Recurring UNE Rates
DOCKET No. TO00060356

Unbundled Network Elements	Present Rate[1]	Verizon Proposed Rate[2]	Absolute Difference	Percentage Difference[3]
Digital Cross Connect System				
Port Cost Per Month				
DS0 Termination	$ 20.00	$ 20.62	$ 0.62	3%
DS1 Termination	$ 69.81	$ 71.65	$ 1.84	3%
DS3 Termination	$ 301.85	$ 324.38	$ 22.53	7%
STP Port Termination (Monthly)	$ 524.76	$ 801.56	$ 276.80	53%
SS7 Link	$ 6.27	$ 9.30	$ 3.03	48%
Signaling Databases				
800 Database				
basic query	$ 0.000807	$ 0.000936	$ 0.000129	16%
vertical query	$ 0.000461	$ 0.000578	$ 0.000117	25%
LIDB (Per Query)				
Calling Card	$ 0.010597	$ 0.010707	$ 0.000110	1%
Billed Number Screening	$ 0.010597	$ 0.010707	$ 0.000110	1%
Customized Routing Per Call	$ 0.00329	$ 0.004252	$ 0.000962	29%
Daily Usage File				
Cost per Tape	$ 12.93	$ 12.90	$ (0.03)	0%
Network Data Mover	$ 0.000295	$ 0.000295	$ (0.00)	0%
Message Recording	$ 0.00150	$ 0.001494	$ (0.000006)	0%
DUF Transport				
9.6 kb	$ 43.35	$ 53.92	$ 10.57	24%
56 kb	$ 253.42	$ 314.52	$ 61.10	24%
256 kb	$ 1,158.46	$ 1,437.81	$ 279.35	24%
T1 Port	$ 6,987.00	$ 8,671.75	$ 1,684.75	24%
DUF Transport (Maintenance)				
9.6kb	$ 0.53	$ 0.53	$ (0.00)	0%
56kb	$ 3.10	$ 3.09	$ (0.01)	0%
256kb	$ 14.19	$ 14.13	$ (0.06)	0%
T1 Port	$ 85.58	$ 85.19	$ (0.39)	0%
Operations Support Systems				
Pre-Ordering Per Query	$ 0.28	$ 0.29	$ 0.01	3%
EB-OSI Maintenance Per Query	$ 1.15	$ 1.21	$ 0.06	5%
Ordering Per Transaction	$ 4.72	$ 5.22	$ 0.50	11%
Non-Paper Media per CD-ROM	$ 250.25	$ 250.97	$ 0.72	0%

Exhibit SMB-2

Verizon's Proposed UNE Rates Would Lead to Excessive Revenues and Jeopardize Local Competition

VERIZON - NEW JERSEY
Comparison of Present and Proposed Recurring UNE Rates
DOCKET No. TO00060356

Unbundled Network Elements	Present Rate[1]	Verizon Proposed Rate[2]	Absolute Difference	Percentage Difference[3]
SMS Pricing (AIN Service Creation)				
Service Creation Usage				
Remote Access per 24 Hr. day	$ 1,571.32	$ 2,467.83	$ 896.51	57%
On Premise per 24 Hr. day	$ 1,571.32	$ 2,467.83	$ 896.51	57%
Certification and Testing per Hour	$ 63.16	$ 62.85	$ (0.31)	0%
Help Desk Support per Hour	$ 67.25	$ 66.92	$ (0.33)	0%
Service Charges				
Subscription Charges	$ 1.20	$ 1.97	$ 0.77	64%
Database Queries				
Network Query	$ 0.00091	$ 0.00121	$ 0.000305	33%
CLEC Network Query	$ 0.00091	$ 0.00121	$ 0.000305	33%
CLEC Switch Query	$ 0.00091	$ 0.00121	$ 0.000305	33%
Trigger Charge				
LIne Based	$ 0.00088	$ 0.00112	$ 0.000235	27%
Office Based	$ 0.00088	$ 0.00112	$ 0.000235	27%
Utilization Element	$ 0.00057	$ 0.00077	$ 0.000203	36%
Service Modification				
DTMF Update Per Change	$ 0.13	$ 0.18	$ 0.05	36%
Service Order Input				
Switched Based Announcement	$ 0.00120	$ 0.00150	$ 0.000302	25%
Line Sharing				
Admin & Support				
Option C	$ 29.98	$ 29.99	$ 0.01	0%
Splitter Equipment - Option C only	$ 3.57	$ 4.17	$ 0.60	17%
xDSL Conditioning & Qualification				
Mechanized Loop Qualification	$ 0.35	$ 0.40	$ 0.05	13%
Wideband Test System	$ 1.34	$ 1.95	$ 0.61	46%
EEL Testing				
2 Wire Analog Connection Charge	$ 0.03	$ 0.05	$ 0.02	77%
2 Wire Digital Connection Charge	$ 0.04	$ 0.07	$ 0.03	73%
4 Wire Analog Connection Charge	$ 0.07	$ 0.12	$ 0.05	67%
DS1 Connection Charge	$ 0.30	$ 0.52	$ 0.22	73%
DS3 Connection Charge	$ 90.12	$ 131.16	$ 41.04	46%
DDS Connection Charge	$ 0.06	$ 0.11	$ 0.05	77%
Total	$ 32,360.74	$ 45,009.61	$ 12,648.88	39%

Notes:

[1] Present rates set forth in *Summary Order of Approval*, New Jersey Board of Public Utilities Docket No. TO00060356, December 17, 2001, Attachment A.

[2] Verizon Proposed Rates filed as Exhibit A by Verizon - New Jersey on January 6, 2004 in Docket TO00060356.

[3] Percentage results have been rounded.

[4] The proposed rates include fractions of pennies which do not appear due to rounding. The present rates are assumed to be identical to the proposed rates.

[5] *Decision and Order*, New Jersey Board of Public Utilities Docket No. TO00060356, Septermber 13, 2002.

RPA Exhibit SMB-3

Verizon New Jersey Proposed GAAP Depreciation Lives and Future Net Salvage Percentages

Exhibit SMB-3

VERIZON - NEW JERSEY
Proposed GAAP Depreciation Lives and Future Net Salvage Percentages
DOCKET No. TO00060356

Account Number	Account Description	Proposed Life	Proposed Future Net Salvage Percentage
2121	Buildings	33	0
2124	Computers	5	0
2212	Digital Switching	12	0
2220	Operator Systems	10	0
2231	Radio Systems	5	0
2232	Circuit Equipment	9	2
2411	Poles	30	-90
2421.1	Aerial Cable-Metallic	15	-5
2421.2	Aerial Cable-Non Metallic	20	-5
2422.1	U.G. Cable - Metallic	16	-10
2422.2	U.G. Cable - Non Metallic	20	-5
2423.1	Buried Cable-Metallic	17	-3
2423.2	Buried Cable-Non Metallic	20	-3
2424.1	Sub & Deep Sea Cable - Metallic	16	-5
2424.2	Sub & Deep Sea Ca - Non Metallic	20	-5
2426.1	Intrabldg Cable-Metallic	16	-5
2426.2	Intrabldg Cable-Non Metallic	20	-5
2441	Conduit Systems	50	-10

Source: Testimony of John M. Lacey on behalf of Verizon New Jersey, Inc., January 6, 2004, Attachment B.

January 23, 2004

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I. INTRODUCTION

Qualifications

Q: Please state your name, position, and business address.

A: My name is Susan M. Baldwin. I am an independent consultant and my business address is 48 Franklin Street, Watertown, Massachusetts, 02472. I specialize in telecommunications economics, regulation, and public policy, and consult to public sector agencies.

Q: Please summarize your educational background and professional experience.

A: I have prepared a Statement of Qualifications, which is included as Attachment A.

Q: Have you previously testified before the New Jersey Board of Public Utilities ("Board")?

A. Yes. In 1992, I testified in BPU Docket No. T092030358 (In the matter of the Application of the New Jersey Bell Telephone Company for Approval of its Plan for an Alternative Form of Regulation), on behalf of the New Jersey Cable Television Association.

Q: Have you previously testified regarding depreciation as it relates to total element long run incremental cost ("TELRIC") studies?

A: Yes. In May 2003, I filed testimony before the Illinois Commerce Commission in Docket No. 02-0864 (Illinois Bell Telephone Company Filing to Increase Unbundled Loop and Nonrecurring Rates) on behalf of the Citizens Utilities Board.

Q: Have you testified regarding incumbent local exchange carriers' ("ILECs")

depreciation proposals in any other regulatory proceedings?

A: Yes. I testified on the impact of Southern New England Telephone Company's network modernization plan on its depreciation expenses (Ct. DPUC Docket No. 92-09-19) in Connecticut, on behalf of the Office of the Consumer Counsel.

Q: Do you have other state regulatory experience analyzing depreciation?

A: Yes. I have served in a direct advisory capacity to the District of Columbia Public Service Commission, the Massachusetts Department of Telecommunications and Energy ("DTE") (DTE 01-20), and the Vermont Public Service Board (PSB Docket 5700/5702) on various issues, including depreciation.

Assignment

Q: On whose behalf is this testimony being submitted?

A: This testimony is being submitted on behalf of the Division of the Ratepayer Advocate ("Ratepayer Advocate").

Q: What is the purpose of your testimony at this time?

A: The Ratepayer Advocate asked me to address the merits of Verizon New Jersey, Inc.'s ("Verizon NJ") proposal to use Generally Accepted Accounting Principles ("GAAP") in its calculation of recurring and nonrecurring TELRIC costs.

Summary of testimony

Q: Please summarize your testimony.

A: The Board should reject Verizon NJ's proposal to use GAAP lives in computing TELRIC recurring and nonrecurring costs because:

- Verizon NJ fails to demonstrate that they are economic lives, i.e., that they would "replicate the results that would be anticipated in a competitive marketplace."[1]
- The use of GAAP lives would increase substantially the prices for unbundled network elements ("UNEs"), and therefore would unfairly require competitors and consumers to subsidize Verizon NJ's pursuit of its business plans that do not relate to the supply of wholesale UNEs, such as the development of broadband and fiber-based services.
- If the Board does reconsider depreciation, the Board should instead increase depreciation lives to a midpoint between the most recently established Board lives and the high end of the range that the Federal Communications Commission ("FCC" or "Commission") has established. Alternatively, the Board should reaffirm its earlier findings and rely on the lives that Verizon NJ's previously approved TELRIC studies incorporate.
- I reserve the right to provide supplemental testimony based on my review of all

[1] *In the Matter of Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, CC Docket No. 01-338, *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-98, and *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Report and Order and Order on Remand and Further Notice of Proposed Rulemaking* (rel. August 21, 2003) ("Triennial Review Order"), at ¶ 689.

discovery responses and the voluminous documents referenced in Verizon NJ's various responses to data requests.

II. REGULATORY BACKGROUND

Background of this proceeding

Q: Please describe generally your understanding of this proceeding.

A: The Board originally set rates, terms and conditions for access to unbundled network elements ("UNEs") in its *Generic Order* in 1997.[2] On June 6, 2000, the U.S. District Court of New Jersey remanded the *Generic Order* with respect to its findings on recurring and nonrecurring UNE rate elements.[3] On June 7, 2000, the Board initiated the current proceeding (Docket No. TO00060356). After several rounds of testimony and three months of hearing, the Board closed the record in June 2001. The Board completed its review in November 2001, and released its Decision and Order in Docket No. TO00060356 on March 6, 2002.[4] It is my understanding that Verizon NJ filed a Complaint in United District Court for the State of New

[2] *In the Matter of the Investigation Regarding Local Exchange Competition for Telecommunications Services*, New Jersey Public Utilities Docket No. TX95120631, *Decision and Order*, December 2, 1997 ("Generic Order").

[3] *In the Matter of the Board's Review of Unbundled Network Elements Rates, Terms and Conditions of Bell Atlantic - New Jersey, Inc*., New Jersey Board of Public Utilities Docket No. TO00060356, *Order*, December 23, 2003, at 2 citing *AT&T Communications of New Jersey, Inc., et al. v. Bell Atlantic - New Jersey, Inc. et al.*, Civ. Nos. 97-5762 and 98-0109 (DCNJ June 6, 2000).

[4] *In the Matter of the Board's Review of Unbundled Network Elements Rates, Terms and Conditions of Bell Atlantic-New Jersey, Inc.*, New Jersey Board of Public Utilities Docket No. TO00060356, *Decision and Order*, March 6, 2002 ("2002 UNE Order").

Jersey in November 2002 against the Board.[5] Verizon NJ and the Board subsequently entered into a joint settlement whereby Verizon NJ agreed to withdraw its Complaint in exchange for an "expedited review" of the depreciation and cost of capital inputs used to develop UNE rates.[6] In its Order reopening Docket No. TO00060356, the Board states that the *Triennial Review Order* provides "new, additional guidance to states that may affect the UNE rates established by the states in following the FCC's TELRIC-methodology" and that "the FCC provided clarification on two key inputs used by states to set TELRIC-compliant rates: depreciation and cost of capital."[7]

FCC guidance to states on setting depreciation lives in TELRIC studies

Q: Ms. Baldwin, are you familiar with the FCC's recent guidance to state regulators on setting depreciation lives for TELRIC studies?

A: Yes. Two FCC proceedings provide the context for the Board's investigation, although, as I discuss later, neither justifies an examination of depreciation by the Board at this time. First, the *Triennial Review Order*, released last year, provides limited additional guidance to the states.[8]

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[5] *In the Matter of the Board's Review of Unbundled Network Elements Rates, Terms and Conditions of Bell Atlantic - New Jersey, Inc*., New Jersey Board of Public Utilities Docket No. TO00060356, *Order*, December 23, 2003 ("2003 UNE Order"), at 2.

[6] *Id.*

[7] *Id.*, at 3.

[8] The guidance that the FCC provides in the *Triennial Review Order* supplements the directives set forth in the *Local Competition Order*. See, *Implementation of the Local Competition Provisions*

Second, the FCC released a Notice of Proposed Rulemaking in its *Review of the Commission's Rules Regarding the Pricing of Unbundled Network Elements and the Resale of Service by Incumbent Local Exchange Carriers* ("TELRIC NPRM") in September 2003, which addresses, among other things, depreciation.[9]

Q: What position did the FCC adopt with respect to depreciation in the *Triennial Review Order*?

A: The FCC declined to adopt the ILECs' proposal that the FCC mandate the use of "financial lives" and concluded that the ILECs had "not provided any empirical basis on which [the FCC] could conclude that financial lives always will be more consistent with TELRIC than regulatory lives."[10] However, the FCC declined to mandate a particular method of developing depreciation lives other than to state that the components of TELRIC rates should "be developed using a

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in the Telecommunications Act of 1996; Interconnection between Local Exchange Carriers and Commercial Mobile Radio Service Providers, CC Docket Nos. 96-98, 95-185, *First Report and Order*, 11 FCC Rcd 15499 (1996) ("Local Competition Order"), aff'd in part and vacated in part sub nom. Competitive Telecommunications Ass'n v. FCC, 117 F.3d 1068 (8th Cir. 1997) and Iowa Utils. Bd. v. FCC, 120 F.3d 753 (8th Cir. 1997), aff'd in part and remanded, AT&T v. Iowa Utils. Bd., 525 U.S. 366 (1999), on remand, Iowa Utils. Bd. v. FCC, 219 F.3d 744 (8th Cir. 2000), reversed in part subnom. Verizon Communications Inc. v. FCC, 535 U.S. 467 (2002), *Order on Reconsideration*, 11 FCC Rcd13042 (1996), *Second Order on Reconsideration*, 11 FCC Rcd 19738 (1996), *Third Order on Reconsideration and Further Notice of Proposed Rulemaking*, 12 FCC Rcd 12460 (1997), further recons. pending.

[9] *Review of the Commission's Rules Regarding the Pricing of Unbundled Network Elements and the Resale of Service by Incumbent Local Exchange Carriers*, FCC WC Docket No. 03-173, *Notice of Proposed Rulemaking* (rel. September 15, 2003) ("TELRIC NPRM").

[10] *Triennial Review Order*, at ¶ 688.

consistent set of assumptions about competition."[11]

Q: Does the *TELRIC NPRM* provide any further guidance on this issue?

A: The *TELRIC NPRM* continues to support the FCC's current findings that its prescribed depreciation lives are acceptable as "economic lives" to be used in setting UNE prices. The Commission states in its *TELRIC NPRM* that:

> Asset lives prescribed by the Commission were intended to be forward-looking when they were established, and the Supreme Court specifically found that FCC-prescribed asset lives were a reasonable starting point for developing the depreciation expense to be used in setting UNE prices.[12]

Specifically, the Supreme Court observed in *Verizon v. FCC* that "TELRIC itself prescribes no fixed percentage rate as risk-adjusted capital costs and recognizes no particular useful life as a basis for calculating depreciation costs. On the contrary, the FCC committed considerable discretion to state commissions on these matters."[13] The Supreme Court noted further:

> The order [the FCC's Local Competition Order, ¶702] thus treated then-current capital costs and rates of depreciation as mere starting points, to be addressed upward if the incumbents demonstrate the need[14] . . . We have been informed of no specter of imminently obsolescent loops requiring a radical revision of currently reasonable depreciation.[15]

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[11] *Id.*, at ¶ 689.

[12] *TELRIC NPRM*, at ¶ 95, footnotes omitted.

[13] *Verizon Communications, Inc. v. FCC*, 535 US 467, 519 (2002).

[14] *Id.*, at 519.

[15] *Id.*, at 520, footnote omitted.

The FCC also stated in its *TELRIC NPRM* that it has been reluctant to rely on GAAP lives in past decisions because that "might permit companies to adopt depreciation methods that result in excessive depreciation expense."[16] The FCC has clearly signaled its intention to investigate further the issue of depreciation lives, how these lives are set, and how UNE cost models reflect depreciation rates. Many of the issues for which the FCC seeks comment relate directly to this proceeding. For example, the FCC asks:

> Do the financial lives used to develop earnings reported to shareholders match those that companies use to plan their future capital expenditures? If not, are the financial lives used to develop reported earnings shorter or longer than those that companies use to plan their capital expenditures? Please explain why these lives differ, assuming that they do.[17]

Q: What is the significance of the FCC's pending *TELRIC NPRM* to the Board's investigation of depreciation in this proceeding?

A: The possibility of any future FCC-established modifications to existing federal guidance that may result from the FCC's pending investigation of depreciation and other TELRIC issues is speculative at this time. The pending investigation does, however, provide another reason for the Board to determine that it is premature to revise its most recent findings on depreciation.

[16] *TELRIC NPRM*, at ¶ 98.

[17] *Id.*

In addition it is premature to revisit depreciation because the TELRIC studies concern the pricing of essential wholesale network elements that Verizon NJ supplies to its competitors. The limited review announced by the Board ignores the other events such as the *Triennial Review Order's* elimination of unbundling for certain network elements, the FCC's findings about the non-TELRIC compliance of Verizon's loop cost model and nonrecurring cost model, and the lack of current data on all the many inputs used to derive UNE costs.

Moreover, the economic depreciation assumptions used in TELRIC studies do not prevent Verizon NJ from choosing the use of GAAP for financial reporting and capital budgeting purposes. By contrast, the impact of increasing depreciation lives in this proceeding, as Verizon NJ proposes, would be to increase TELRIC prices, and to impede the development of local competition.

Q: In your view, are the Board's most recent directives on depreciation consistent with federal guidance?

A: Yes. The Board's most recent directives on depreciation are entirely consistent with the additional guidance set forth in the *Triennial Review Order*. Furthermore, the Supreme Court found the FCC's original depreciation directives (which informed the Board in its recent UNE Order) reasonable. Also, Verizon NJ has failed to provide persuasive evidence (and indeed Dr. Lacey's testimony lacks any detail or empirical support) that the depreciation rates the present

TELRIC rates incorporate are not economic.[18] Finally, depreciation and the cost of capital[19] are only two of many different cost factors that affect the calculation of TELRIC costs, and therefore, the Board should revisit all cost factors (e.g., cost of switching equipment, time and task estimates for nonrecurring activities, etc.) simultaneously rather than undertaking a "dual issue rate case." Indeed, the FCC has raised serious concerns about other aspects of Verizon's TELRIC studies, which, if depreciation and cost of capital assumptions are now to be revisited, should also be investigated.[20]

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[18] Direct Testimony of John M. Lacey on behalf of Verizon New Jersey, Inc., January 6, 2004.

[19] Verizon also proposes to increase the cost of capital in its TELRIC studies. Direct testimony of James H. Vander Weide on behalf of Verizon New Jersey, Inc., January 6, 2004.

[20] In August 2003, the FCC released a Memorandum Opinion and Order in its arbitration of an interconnection dispute in Virginia between Verizon and AT&T and Worldcom. The FCC chose not to use Verizon's Loop Cost Analysis Model ("LCAM") to establish loop rates because it did not meet established model criteria as well as the competing model (the MSM loop module). Specifically, the FCC found that Verizon's loop cost study "is not an economic cost model," and because of its "extensive use of historical network design and data" the LCAM was not as consistent with TELRIC principles as the MSM loop module (¶ 52). The FCC criticized Verizon's model because it uses Verizon's existing outside plant network, which is at least 10 years old, as a starting point. The FCC characterized the model as one that "applies forward-looking adjustments to embedded network design and technology assumptions" (¶ 171). The FCC further found that there were "serious issues of transparency and verifiability with the Verizon study, and in particular with the LCAM model" (¶ 53, See, also, ¶ 172). *In the Matter of Petition of WorldCom, Inc.Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., and for Expedited Arbitration*, CC Docket No. 00-218; *In the Matter of Petition of AT&T Communications of Virginia Inc., Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia Corporation Commission Regarding Interconnection Disputes With Verizon Virginia Inc.*, CC Docket No. 00-251, *Memorandum Opinion and Order* (rel. August 29, 2003) ("Virginia Arbitration Order").

III. ANALYSIS OF VERIZON NJ'S FILING

Summary of Verizon NJ's depreciation filing

Q: Ms. Baldwin please summarize Verizon NJ's filing as it relates to depreciation.

A: John M. Lacey, Verizon NJ's witness regarding depreciation issues, asserts that GAAP should be used to calculate depreciation lives used in UNE cost studies and that Verizon NJ's proposed depreciation lives are consistent with GAAP. Dr. Lacey states that:

> GAAP lives are appropriate to use in setting UNE rates – at least as a starting place – and indeed, are necessary to comply with the FCC's mandate that UNE rates be set based on the incumbent's "economic depreciation" in a fully competitive telecommunications market.[21]

Dr. Lacey also contends that depreciation lives estimated using GAAP "are the best available lives for computing the actual, forward-looking, anticipated economic life of assets."[22]

Q: Does Dr. Lacey address the FCC's prescribed depreciation lives that WorldCom proposed and the Board adopted for use in setting UNE rates in 2002?

A: Yes. Dr. Lacey states that the FCC's depreciation lives were established before the Telecommunications Act of 1996 and thus "they fail to take into account the full panoply of risks and technological changes that ILEC's [sic] face today in a forward-looking environment."[23] He states further that the FCC's depreciation lives are "accordingly inconsistent with the FCC's

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[21] Lacey Direct (Verizon), at 4.

[22] *Id.*

[23] *Id.*, at 5.

desire to ensure that UNE rates send appropriate signals and reflect the impact of competition."[24]

Q: Ms. Baldwin, are the current FCC depreciation lives based on a pre-Telecommunications Act marketplace?

A: No. Although Dr. Lacey is correct that the depreciation lives were originally established in the early 1990s, the FCC has since reviewed the prescribed lives and made changes as necessary. The FCC reviewed the ILECs' depreciation rates in 1999. I have included as Exhibit SMB-1 to my testimony the depreciation ranges that the FCC adopted in December 1999 in Docket No. 98-137.

Q: Did the FCC's review of depreciation rates provide guidance to the states regarding the use of depreciation lives in setting UNE rates?

A: Yes. In its review, the FCC found that, in the context of price cap regulation:

> Further, in the *Local Competition Proceeding*, the Commission required the use of "economic depreciation" in calculating rates for interconnection and UNEs, but did not elaborate on how economic depreciation should be calculated. Based on our review to date, twenty-four states commissions have required incumbent LECs to use FCC-prescribed projection lives and salvage factors, or similar state-prescribed factors, to calculate their rates for UNEs. We are concerned that forbearance from depreciation regulation by the Commission might deprive state regulatory commissions of valuable information that they may want or need in setting rates for interconnection and UNEs, and might enable incumbent LECs to raise arbitrarily the rates for essential inputs that competitors must purchase from the incumbent LECs. This could have an adverse impact on

[24] *Id.*

the development of local competition.[25]

It is of course in Verizon NJ's interest to adopt short lives because it can pass on the cost of that accelerated depreciation to consumers (indirectly) and competitors (directly) through UNE rates. The Commission should reject Dr. Lacey's recommendations for the use of GAAP lives. He has failed to demonstrate that either competitive pressures or technological changes have caused the lives set forth by the FCC to be outdated or that the use of GAAP lives is a superior method for measuring economic depreciation lives. Dr. Lacey does not provide any specific evidence in support of the use of GAAP lives in Verizon NJ's TELRIC studies. The consequence of adopting the lives he proposes, however, would be to increase the TELRIC prices that Verizon NJ charges for wholesale services it offers to its competitors.[26] The FCC, after carefully considering the

[25] *FCC 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers,* CC Docket No. 98-137, *Report and Order*, and *United States Telephone Association's Petition for Forbearance from Depreciation Regulation of Price Cap Local Exchange Carriers*, *Memorandum Opinion and Order* in ASD 98-91, FCC 99-397 (rel. December 30, 1999) ("1998 Biennial Review of Depreciation Requirements"), at ¶ 33.

[26] Alternative regulation plans have governed Verizon NJ's retail rates since 1993, and, therefore, the depreciation rates and lives that Verizon NJ adopts for financial reporting and internal capital budgeting plans have no impact on Verizon NJ's retail rates. See, *In the Matter of The Application of New Jersey Bell Telephone Company for Approval of its Plan for an Alternative Form of Regulation*, New Jersey Board of Public Utilities Docket No. TO92030358, *Decision and Order*, May 6, 1993; *In the Matter of the Application of Verizon New Jersey Inc. For Approval (i) of a New Plan for an Alternative Form of Regulation and (ii) to Reclassify Multi-line Rate Regulated Business Services as Competitive Services, and Compliance Filing*, New Jersey Board of Public Utilities Docket No. TO01020095, *Decision and Order*, August 19, 2003.

impact of ILECs' raising rates for essential inputs, the level of competition, and the state of telecommunications technology, set forth a reasonable range of depreciation lives.

Q: Has the FCC addressed these depreciation lives more recently?

A: Yes. In August 2003, the Wireline Competition Bureau reiterated the Commission's findings with respect to its prescribed lives in the context of an arbitration of an interconnection dispute between Verizon Virginia and several CLECs.[27] Specifically, the Bureau adopted the low end of the FCC's 1999 prescribed depreciation lives concluding that those lives " . . . represent the Commission's most recent assessment of the forward-looking asset lives for each of the accounts" and are " . . . consistent with the competition and technology assumptions required under the Commission's TELRIC rules."[28] Furthermore, the Bureau found that Verizon's criticism of the FCC's prescribed lives was unsupported:

> We reject Verizon's argument that FCC regulatory lives are not sufficiently forward-looking . . . While Verizon asserts generally that technological advances and increased competition justify the use of shorter lives, it provides no specific evidence to support its position. For example, Verizon provides no studies or other documents explaining the anticipated technological advances that might cause it to retire plant more quickly than anticipated when the safe harbor was established (or modified in the case of digital switching), nor has it effectively rebutted AT&T/WorldCom's argument that new technology can extend the life of assets, as DSL technology has done with copper facilities. Similarly,

[27] *Virginia Arbitration Order*.

[28] *Id.*, at ¶ 112.

> Verizon *provides no evidence to demonstrate how increased competition has affected retirement rates since the asset lives we use were established, or how it might affect future retirement rates*.[29]

Q: Does Verizon NJ provide evidence as to the technological advances and increased competition that would justify a decrease in depreciation lives in the case before this Board?

A: No, it does not. Dr. Lacey vaguely asserts that the use of GAAP lives is the best methodology for taking technological changes and potential emerging competition into account,[30] but provides no evidence as to why that is the case. Dr. Lacey testifies that GAAP requires that factors such as industry trends must be "considered in determining the depreciable life of an asset."[31] However, his testimony does not provide any specific details as to how GAAP would capture changes in the marketplace more accurately than does the use of the economic lives prescribed by the FCC.

Q: Was Dr. Lacey involved in actually setting the depreciation lives proposed by Verizon NJ?

A: It is my understanding that he was not. Apparently, his role was to make an independent appraisal of Verizon NJ's proposed depreciation lives and determine whether the

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[29] *Id.*, at ¶ 115, emphasis added.

[30] Lacey Direct (Verizon), at 4-5.

[31] *Id.*, at 11.

proposed lives are consistent with GAAP.[32] His testimony indicates that he did not have a direct role in setting Verizon NJ's GAAP lives. For example, he states: "I *understand that Verizon NJ* looks at information from a variety of sources . . ." and *"It is my understanding* that, as a starting point, Verizon NJ uses the panoply of factors . . . "[33]

Q: Does Dr. Lacey describe how Verizon NJ calculated its proposed depreciation rates?

A: Not adequately. Dr. Lacey's testimony on this point is vague. Dr. Lacey states that Verizon NJ uses a "panoply of factors" prescribed by the National Association of Regulatory Utility Commissioners to reflect technological and competitive developments and that Verizon NJ "looks at information from a variety of sources, including its own internal capital spending budgets and engineering plans concerning the retirement of equipment" as well as "information concerning the current and anticipated level of facilities-based competition."[34] However, Dr. Lacey does not provide the Board with any concrete examples of how the entry of a new competitor in the marketplace would translate into a change in the calculation of the depreciation life for a particular account. His testimony summarizes GAAP and accounting principles but provides no support for

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[32] *Id.*, at 3.

[33] *Id.*, at 13, emphasis added.

[34] *Id.*

Verizon NJ's analyses and information that purportedly justify the use of GAAP lives. Verizon NJ has failed to describe, let alone support, its specific underlying assumptions about competition, technology, and/or other factors upon which the company relied to develop its GAAP lives.

The Board's previous findings regarding depreciation in TELRIC studies

Q: Ms. Baldwin, what is your understanding of the current depreciation lives that the Board adopted in 2002?

A: My understanding is that the Board adopted depreciation lives based on the FCC's ranges to which I refer above, and which, according to the Board "constitute appropriate forward-looking depreciation lives."[35]

Q: Did the Board make any finding with regard to the use of GAAP lives in its *2002 UNE Order*?

A: Yes. The Board rejected Verizon NJ's proposed lives based on 1999 GAAP "because they were incorrectly based upon financial accounting lives."[36] The Board stated further:

> While Verizon referred to its proposed depreciation rates as economic lives, it acknowledged that the 1999 GAAP lives are consistent with the lives it used for financial reporting. We agree with WorldCom that financial lives are not a suitable proxy for economic lives and will artificially inflate costs and potentially impede competition . . . We are guided in our decision by the parties that have suggested that financial

[35] *2002 UNE Order*, at 45.

[36] *Id.*, at 43.

> accounting lives are driven by corporate objectives, and by the accounting world's belief that it is better to overstate costs than to understate them for financial reporting purposes.[37]

Finally, the Board noted that the use of financial lives "in setting TELRIC rates would unfairly increase UNE costs by accelerating the annual charges related to network facilities."[38]

Q: How do the lives most recently set by the FCC compare with those that Verizon NJ now proposes?

A: Table 1 (below) shows that, for all the accounts, Verizon NJ proposes lives that are shorter than the lives the Board adopted in its *2002 UNE Order* and, for the most part, shorter than even the low end of the range that the FCC most recently established in 1999. Table 1 also shows that the lives that Verizon NJ proposes in this proceeding are nearly identical to those that it proposed four years ago.

Q: What do you infer from the fact that the lives that Verizon NJ proposes now are so similar to those that the company proposed in 2000?

A: Dr. Lacey states that he understands that, in establishing GAAP lives, "Verizon NJ considered the decline in its depreciable assets' value due to factors such as competition,

[37] *Id.*, at 43-44.

[38] *Id.*, at 44.

technological change, and the inherent risk in providing UNEs."[39] Apparently, Verizon NJ considers the competitive characteristics of the local telecommunications marketplace and the relevant technology to have undergone negligible changes during the last four years. In some instances, Verizon NJ proposes *longer* lives than it did in 2000. For example, as Table 1 shows, Verizon NJ proposes twelve rather than ten years for the digital switching account, and seventeen years rather than sixteen years for the buried cable account. Yet, in a separate proceeding, Verizon NJ seeks a finding of non-impairment for mass market switching because it contends that competitors have self-provisioned a sufficient numbers of switches to meet the FCC's "triggers."[40] Because Verizon NJ fails to provide any information about its assumptions on competition and technology, one could reasonably assume that whatever predictions it made in 2000 have still not materialized.

[39] Lacey (Direct) Verizon, at 22.

[40] *In the Matter of the Implementation of the Federal Communications Commission's Triennial Review Order*, New Jersey Board of Public Utilities Docket No. TO03090705, Testimony of Harold E. West, III and Carlo Michael Peduto, II, December 3, 2003. Also, the FCC has found that no operational or economic issues impair CLECs' ability to serve enterprise customers. *Triennial Review Order*, at ¶ 451.

Table 1

Comparison of Board and FCC Established Depreciation Lives with Verizon Proposed Depreciation Lives for Major Accounts Verizon (Years)

	Verizon Proposed		Board Ordered	FCC Established (1999)[4]	
Category	2000[1]	2004[2]	(2002)[3]	Low	High
Computers	5	5	6	6	8
Digital Switching	10	12	15	12	18
Operator Systems	10	10	12	8	12
Circuit Equipment	9	9	12	11	13
Poles	30	30	35	25	35
Aerial Cable -Metallic	16	15	23	20	26
Aerial Cable Non-Metallic	20	20	27.5	25	30
Underground Cable - Metallic	16	16	27.5	25	30
Underground Cable Non-Metallic	20	20	27.5	25	30
Buried Cable - Metallic	16	17	23	20	26
Buried Cable Non-Metallic	20	20	27.5	25	30
Intrabuilding Cable - Metallic	16	16	23	20	25
Intrabuilding Cable Non-Metallic	20	20	27.5	25	30
Conduit Systems	50	50	50	50	60

Notes:
[1] *Decision and Order* Docket No. TO00060356, March 6, 2002, at 40.
[2] Testimony of John M. Lacey, Attachment B, January 6, 2004.
[3] *Decision and Order* Docket No. TO00060356, March 6, 2002, at 43.
[4] Depreciation ranges adopted in FCC CC Docket No. 98-137, December 17, 1999.

The depreciation lives that the Board authorizes will affect the development of local telecommunications competition

Q: Ms. Baldwin, did the FCC address the implications of the use of shorter lives than those it adopted in 1999?

A: Yes. The FCC specifically addressed the relationship between the depreciation lives that an ILEC uses and the development of competition, and stated that any depreciation lives shorter than what is prescribed within the FCC's high/low range could have a substantial harmful impact on competition because the ILECs "could independently

establish depreciation rates that could result in unreasonably high interconnection and UNE rates, which competitors would be compelled to pay in order to provide competing local exchange service."[41]

Q: Did the FCC provide any guidance on the potentially adverse effect of using GAAP lives for the purpose of computing UNE costs?

A: Yes. The FCC elaborated further on the impact of the use of GAAP in regulatory ratemaking:

> Incumbent LECs also contend that, if we were to forbear, generally accepted accounting principles (GAAP) would prevent excessive depreciation expense and thereby ensure just and reasonable rates. We disagree. An incumbent LEC using GAAP would have substantial latitude to select different methods of depreciation, such as accelerated depreciation, that could significantly alter the depreciation expense that the LEC could claim. Additionally, the Commission has previously rejected the incumbent LECs' argument, stating that "GAAP is guided by the conservatism principle which holds, for example, that, when alternative expense amounts are acceptable, the alternative having the least favorable effect on net income should be used." The Commission concluded that, although conservatism is effective in protecting the interests of investors, it may not always serve the interests of ratepayers, and did not offer adequate protection for ratepayers in the case of depreciation accounting. We are not persuaded that the role of the conservatism principle in GAAP has changed or that we should change our previous decision. Incumbent LECs contend that the other principles of GAAP are sufficient to protect the interests of ratepayers. We believe that giving incumbent LECs the right to select, for regulatory purposes, any depreciation rate allowed by GAAP is inappropriate as long as incumbent LECs reserve the right to make claims for regulatory

[41] *1998 Biennial Review of Depreciation Requirements*, at ¶ 28.

relief based on the increased depreciation that would result from granting them that flexibility.[42]

Incumbent carriers' incentives regarding the selection of lives to incorporate in the calculation of prices for wholesale network elements are not unbiased

Q: Dr. Lacey contends that the use of GAAP ensures that reporting is unbiased and neutral,[43] and that, furthermore, Verizon NJ has no incentive to report shorter asset lives.[44] Do you agree?

A: No, I do not. As the previous excerpt from the FCC states, the use of GAAP lives may lead to an overstatement of costs thus jeopardizing the prospects for competition and harming ratepayers. The Massachusetts DTE recently rejected Verizon MA's proposal to use GAAP lives in calculating TELRIC costs, finding that, although companies that use GAAP may protect the interests of investors, "the use of GAAP, as the FCC has noted, does not necessarily serve the interests of ratepayers."[45] I recommend that the Board similarly reject GAAP, as it did in its most recent TELRIC Order.

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[42] *Id.*, at ¶ 48, footnotes omitted.

[43] Lacey Direct (Verizon), at 18.

[44] *Id.*, at 20.

[45] *Investigation by the Department of Telecommunications and Energy on its own Motion into the Appropriate Pricing, based upon Total Element Long-Run Incremental Costs, for Unbundled Network Elements and Combinations of Unbundled Network Elements, and the Appropriate Avoided-Cost Discount for Verizon New England, Inc. d/b/a Verizon Massachusetts' Resale Services in the Commonwealth of Massachusetts,* Massachusetts DTE 01-20, *Order*, July 11, 2002, at 88-89.

Q: Wouldn't the use of GAAP lives encourage Verizon NJ to deploy advanced technology?

A: The impact of depreciation lives on Verizon NJ's incentives for implementing network modernization plans corresponding to its larger corporate objectives is irrelevant to the specific regulatory objectives in this proceeding. Depreciation lives that an incumbent carrier uses in its calculation of the prices for wholesale elements purchased by the ILEC's competitors should be set to encourage the economically efficient supply of those elements. It would be unwise public policy to establish depreciation lives that Verizon NJ uses to compute TELRIC prices to encourage Verizon NJ to pursue technological advancements that the company's non-UNE business plan interests may require. In this proceeding, Verizon NJ fails to demonstrate the link between the shorter lives it proposes and its efficient provision of UNEs to its competitors.

Network advancements that are motivated by ILECs' strategic interests in providing broadband and other emerging services may well conform to the ILECs' business plans and yield benefits to the consumers of these non-UNE offerings, but the costs of such plans have no role in the calculation of TELRIC costs. For example, Verizon NJ may decide to retire copper outside plant well before it deteriorates because of the company's strategic interest in deploying fiber and broadband, but the costs of the

resulting premature retirement would be irrelevant to TELRIC studies.

Q: Does Verizon NJ justify its proposal to shorten the lives of its metallic cable account from 23 years to 17 years?

A: No. The proposal may relate to business plans that concern the deployment of fiber in its local outside plant. Certainly, if Verizon NJ's capital budgeting plans, which may take into account potential revenues from new unregulated broadband services, justify the cost of retiring copper plant prematurely, the regulatory decision that the Board issues in this proceeding would not prevent Verizon from pursuing these business plans. But CLECs should not bear the cost of that decision in UNE rates and consumers should not bear the cost of that decision in thwarted local competition. Furthermore, Verizon NJ does not provide any detail about its copper retirement plan nor does it demonstrate that it has sufficient collocation capacity in its central offices to accommodate the level of competition that Verizon contends would justify shortening plant lives.

Q: But doesn't the FCC seek to encourage ILECs to invest in fiber to the home ("FTTH")?

A: The following excerpt from the *Triennial Review Order* indicates that the FCC removed unbundling obligations on ILECs for FTTH precisely to encourage such deployment:

> While copper loops enable carriers to deliver xDSL-based broadband services, FTTH loops significantly enhance the broadband capabilities a

> carrier can deliver to consumers. Thus, we determine that, particularly in light of a competitive landscape in which competitive LECs are leading the deployment of FTTH, removing incumbent LEC unbundling obligations on FTTH loops will promote their deployment of the network infrastructure necessary to provide broadband services to the mass market.[46]

The fact that new entrants will not have access to the FTTH is yet another reason that they should not be expected to bear the costs associated with Verizon's proposal to shorten the lives of metallic cable.

Q: Doesn't the assumption of a competitive marketplace justify Verizon NJ's use of financial reporting lives in computing depreciation expenses in its TELRIC studies?

A: No. Even if effective local competition should materialize in New Jersey (which, Verizon NJ has failed to demonstrate), the discipline of a competitive marketplace would require Verizon NJ to use only those lives that the competitive marketplace for UNEs could sustain. Where existing plant can satisfactorily support competitively supplied services, providers will not unnecessarily replace it simply because of new entrants' presence. Furthermore, in a competitive marketplace, even if certain plant, which may not have deteriorated through "wear and tear," becomes technologically obsolescent, suppliers cannot pass on to purchasers the cost of the out-of-date plant.

[46] *Triennial Review Order*, at ¶ 278, footnote omitted.

The FCC in its "clarification," directed the states, in setting depreciation rates, to establish lives that "reflect the actual decline in value that would be anticipated in the competitive market TELRIC assumes." The FCC further states that its "'economic depreciation' requirement is designed to replicate the results that would be anticipated in a competitive marketplace."[47] Contrary to Verizon NJ's proposal, the lives that the Board most recently set are economic and replicate those that would be found in a competitive marketplace for basic UNEs. Furthermore, with the changes announced for fiber and broadband services in the *Triennial Review Order (i.e.,* unbundling is not required), the Board should raise the depreciation lives to the midpoint between the lives most recently established by the Board and the high end of the FCC-established range to reflect the fact that Verizon has not retired that portion of the network it uses to supply UNEs and the fact that the underlying infrastrucure continues to be available for that supply.

Q: Dr. Lacey states that Verizon NJ benchmarks its own internal calculation of depreciations lives against its competitors' lives in its final determination of depreciation lives.[48] Do you think this practice is appropriate?

A: Not necessarily. It is unacceptable for Verizon NJ to lower its initial calculation of asset

[47] *Id.*, at ¶ 689.

[48] Lacey Direct (Verizon), at 14.

lives simply on the basis that asset lives reported by its competitors are shorter. Dr. Lacey doesn't provide evidence (e.g. workpapers) of this benchmarking process for the Board. For example, Dr. Lacey does not indicate where Verizon NJ obtained AT&T's or MCI's asset lives and whether such lives came from a regulatory proceeding or from financial reports geared towards an investor audience. Verizon NJ fails to present any evidence (tables, workpapers, etc . . .) to the Board relative to how Verizon NJ's proposed asset lives compare with its competitors or with the lives forecasted in industry studies prepared by Technology Futures, Inc., upon which it indicates it relied.[49]

Q: In more general terms, Ms. Baldwin, should Verizon NJ's depreciation lives necessarily be on par with the depreciation lives of its competitors?

A: No. In fact, in its review of depreciation lives in 1999, the FCC addressed this issue directly:

> The incumbent LECs also contend that they should be granted shorter depreciation projection lives because they face actual and potential competition from interexchange carriers (IXCs) and competitive LECs, which, because their depreciation is not regulated, are free to adopt shorter projection lives than the incumbent LECs. We find that the incumbent LECs fail to address several important distinctions between themselves and these other carriers. First, because we do not regulate either their depreciation rates or the prices they charge to their customers, neither the IXCs nor the competitive LECs have the ability to seek regulatory relief for expenses caused by changes in depreciation rates. Additionally, the depreciation practices of IXCs and incumbent

[49] *Id.*

> LECs are not directly comparable because they use different types of switches and cables. Accordingly, nothing has occurred to compel a change to the Commission's previous conclusion that the characteristics of IXCs and incumbent LECs require separate analyses. We conclude, therefore, that incumbent LECs have not sufficiently demonstrated the validity of the assumptions underlying their proposed shorter lives for plant equipment categories other than digital switching equipment.[50]

Verizon NJ's proposal would inhibit local competition and harm consumers

Q: Ms. Baldwin, have you compared the UNE rates that the Board adopted in 2002 with the UNE rates that would result from the changes in depreciation lives and cost of capital Verizon proposes in this proceeding?

A: Yes. Verizon's proposal would unfairly and substantially increase UNE rates, as Exhibit SMB-2 to my testimony shows. My analysis shows that rates would increase, on average, by thirty-nine percent.[51] Although the simple addition of the costs of all UNE elements clearly oversimplifies the total Verizon NJ revenue and individual CLEC rate impacts that would result from the approval of Verizon NJ's filing, it is clear that Verizon NJ's proposal would dramatically increase its wholesale revenues to the detriment of achieving competition in the local telecommunications marketplace, and therefore to the

[50] *1998 Biennial Review of Depreciation Requirements*, ¶ 18, footnotes omitted.

[51] My analysis computes the cost of a basket that includes one of each rate element, and clearly does not correspond with a basket of goods that a CLEC is likely to purchase. Exhibit SMB-2 illustrates the magnitude of the revenue and rate impact of Verizon NJ's proposal. This analysis could be refined if Verizon NJ were to provide actual billing determinant data. Also, the specific impact of the proposed changes in depreciation lives could be computed separately.

ultimate detriment of consumers.

Q: What do you recommend the Board adopt for depreciation lives?

A. I recommend that the Board adopt the mid-point between the lives it adopted in 2002 and the high end of the range that the FCC established. Alternatively, I recommend that the Board re-affirm its previous findings, which are within the depreciation ranges set forth by the FCC in December 1999.

Should Verizon NJ wish to use GAAP as a conservative measure to protect its investors (conservative because the use of shorter lives increases expenses), this in no way suggests that GAAP should be used in TELRIC studies. In this proceeding, which examines Verizon NJ's forward-looking costs for the purposes of setting UNE prices, the Board should seek to set "conservative" lives by protecting the interests of consumers and should reject the unnecessarily short lives that Verizon NJ proposes. Just as Verizon NJ has a responsibility to protect its investors' interests, the Board has a different and equally important responsibility to balance investors' interests against consumers' interests. Until such time as there are competitive suppliers of UNEs, the Board will continue to have a role in reining in Verizon NJ's interest in passing on the costs of shortened depreciation lives in rate-regulated elements. Furthermore, if the competitive pressures and technological changes to which Dr. Lacey refers actually

occur, there will be future opportunities to revisit Verizon NJ's depreciation lives. However, Dr. Lacey has not demonstrated that the lives recently adopted by this Board need to be shortened. Indeed, as a result of the changes announced in the *Triennial Review Order*, and as I discuss above, the depreciation lives should be revised upward to a midpoint between the most recently established Board levels and the high end that the FCC established. Verizon NJ has failed to provide any new evidence as to why the rates adopted by the Board are not consistent with TELRIC methodology and the competitive conditions TELRIC studies assume.

Q: Ms. Baldwin, Dr. Lacey proposes negative salvage values for many accounts. What is your understanding of his justification for these proposed values?

A: With only minimal explanation, Dr. Lacey proposes negative salvage values for poles, cable, and conduit systems (see Exhibit SMB-3 to my testimony). He states that the "specific depreciation lives and net salvages proposed by Verizon NJ were prepared in accordance with GAAP, reflect the economic lives of network assets, and are fully consistent with the FCC's TELRIC requirements."[52] He subsequently addresses net salvage in his testimony in a limited and general manner.[53] It is my understanding that in another regulatory proceeding, the Board rejected a company's request for the inclusion

[52] Lacey Direct (Verizon), at 4.

[53] *Id.*, at 16.

of negative net salvage in depreciation rates.[54] The Board should make a similar finding in this proceeding, particularly, in light of the paucity of support that Dr. Lacey includes for his proposal.

IV. CONCLUSION

Q: Please summarize your recommendations.

A: My testimony demonstrates the following:

- Verizon NJ has failed to demonstrate that the use of GAAP lives would comply with the FCC's directive to use economic lives.
- Verizon NJ's proposal would unfairly and significantly increase the prices that its competitors pay for essential unbundled network elements, impairing competition in local telecommunications markets.
- Depreciation lives set at the midpoint between those that the Board most recently approved and the high end of the FCC's range would be consistent with the assumption of a competitive marketplace and appropriate in light of the reduced unbundling requirements set forth by the FCC in the recent *Triennial*

[54] *In the Matter of the Verified Petition of Rockland Electric Company for the Recovery of its Deferred Balances and the Establishment of Non-Delivery Rates Effective August 1, 2003* and *In the Matter of the Verified Petition of Rockland Electric Company for Approval of Changes in Electric Rates, its Tariff for Electric Service, its Depreciation Rates, and for Other Relief*, New Jersey Board of Public Utilities Docket Nos. ER02080614 and ER02100724, *Summary Order*, July 31, 2003, adopting (with some modifications), the *Initial Decision*, issued June 10, 2003. See pages 47-58 of the *Initial Decision.*

Review Order.

- If the Board does not adopt the Ratepayer Advocate's proposal to increase the lives that the Board previously set, the Board should reaffirm its previous findings, and make no change to depreciation lives.
- The Board should reject Verizon NJ's proposed negative salvage values.

Q: Does this conclude your testimony at this time?

A: Yes. However, I reserve the right to provide supplemental testimony based on my review of Verizon New Jersey's responses to discovery requests.